



BEAVER VALLEY GERIATRIC CENTER

Beaver County Commissioners

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TO: Terry Biss, Vice-President
Heritage Valley Medical Facilities

FR: William R. Jubeck, Administrator
Beaver Valley Geriatric Center

RE: COUNTY CONTROLLER'S AUDIT

DA: August 6, 1999

In the thirteen years since the last in-depth County Controller's audit at the Center, numerous changes have taken place in all spheres of the operation. Some of these changes have been internally inspired, others have been in response to cost containment pressures, but most have been the result of new government mandates. These mandates have been the regulatory fall out from OBRA 1987 and the Balanced Budget Act of 1997. Both of these pieces of legislation added immeasurably to all nursing homes' already heavy regulatory burden that is acknowledged to be the second heaviest in the United States.

As a consequence of the enormous amount of time and energy consumed by the efforts to adapt to these new mandates coupled with reductions in administrative personnel to respond to the concurrent cost pressures, the Center was not able to direct a large amount of attention toward insuring the integrity of its internal financial control systems. During this time, however, the Center did create and fill the position of internal control coordinator with a professionally educated individual currently earning \$34,400/annually and took additional comfort in the annual audits performed by the County's independent auditors and the PA Auditor General's office. Neither of these audits produced any findings of material consequence over this period.

Despite these measures, however, the rapidity of change and the shortened response time cycle, as related to obtaining supplies and services to meet our residents' medical needs, allowed some weaknesses to begin to creep into the Center's systems. These weaknesses led to some inconsistent compliance with County Code purchasing and contracting mandates. Specific examples include not bidding all non-exempt purchases exceeding \$10,000 not obtaining competitive quotations on all non-exempt purchases of more than \$4,000 but less than \$10,000, not fully

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completing purchase orders, scrutinizing invoices and documenting receipts and not obtaining Board of Commissioners approval on all construction cost change orders. These findings have been reported to me by the three on-site auditors of the County Controller's office that have been engaged in the current audit of the Center since January of this year.

The County Code has its origins in the early years of Pennsylvania's founding. The current provisions relating to purchasing, I have been told, date to the early 1950's. The last revision was in 1990 when the public bid threshold was raised from \$4,000 to \$10,000.

There are a number of allowable exceptions to the purchasing provisions of the Code. Purchasing through a non-profit hospital cooperative arrangement is one, through an established state contract is another. The management services agreement with Heritage Valley Medical Facilities has allowed the Center to take advantage of the former and has produced savings of hundreds of thousands of dollars for the County since the first inception of the contract. Further, the County Solicitor has recently rendered an opinion that affirms the legality of the purchasing arrangement with Heritage Valley.

Purchases through Heritage Valley when not pursuant to a co-operative contract are still subject to the \$4,000 and \$10,000 rules. Some departures from these rules were in evidence during the Heritage Valley phase of the audit.

There is a considerable amount of ambiguity surrounding those purchase provisions relating to repairs and maintenance. The Center in the interest of rapid response, safety and cost-efficiency has historically taken a liberal interpretation of these provisions. Some audit findings in this area may be forthcoming.

The audit in the Dietary area produced a great deal of initial interest. Some findings relating to documentation and record retention may result. The issue of compliance with the \$10,000 public bidding requirement was largely neutralized, however, by a legal opinion that affirmed the rule was applicable to individual orders only and not annual volumes.

A large measure of the problems cited may be the result of communication breakdown. On many occasions over the years, the requirements of the County Code have been brought to the attention of the Center's staff. There are a number of managerial/supervisory personnel with authority to make purchases. Some of them, given the many demands on their time, the growing complexity of their environment and the limited personnel resources at their command, may have consciously or unconsciously relegated these compliance matters to a lower level of priority. Given the level of civil and criminal penalties that have recently been imposed on facilities for resident service deficiencies, I am not sure they should be faulted for their decisions.

To remedy these non-compliant issues, the Center at the direction of the Board of Commissioners has prepared a new purchasing policy and procedure addressing identified areas in need of improvement. It has also publicly bid formerly non-bid items in excess of \$10,000 and has begun submitting all change orders to the Board of Commissioners through the County Engineer. I will also personally review purchasing compliance requirements with the soon to be named new Purchasing Director at HVMF.

In conclusion, may I state that the County Controller's audit has served a very useful purpose in returning the Center's attention to some very fundamental areas of operation and given it direction for improvement. It should not, however, be construed as a charge of fiscal irresponsibility for:

1. Over the last ten years, the Center has successfully recovered over ten million dollars in formerly or prospectively denied Medicaid payments.
2. Over the last three and one-half years, the Center has operated without County cash subsidy - an unprecedented event over its previous thirty-six years of existence. Its former subsidies were as high as \$3.6 million annually.
3. It has also self-funded over \$6.5 million in capital improvements during that time and has reserved enough funds to retire its \$6 million bonded-indebtedness.
4. The recently released 1999 PACAH Survey identifies the Center as one of the lower cost facilities in its peer group despite having higher than average wage rates. This suggests that its purchased costs are lower than average and/or its personnel are highly productive in contradiction to commonly held perceptions of public employee work ethic.

The Center is proud to have accomplished this while maintaining a high quality facility providing over 200,000 days of resident care annually, funding a \$35 million operating budget and preserving employment for over 700 members of the community.

/jf